Hotel and Tourism Development in Cuba

Opportunities, Management Challenges, and Future Trends

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In the past ten years, Cuba has recorded the highest rate of growth in tourism arrivals of all Caribbean countries to become the third most popular tourism destination in the Caribbean region and the second destination in the region for Europeans. In the process, tourism has become Cuba's most lucrative sector. Based on in-depth interviews with senior executives of Cuban and foreign international hotel chains operating on the island and desk research in and outside Cuba, it appears that the benefits for international operators in Cuba outweigh the risks involved. With its expansion of infrastructure and promotion of its history and ecotourism, the country will continue to play a major role as a tourist destination in the Caribbean, regardless of whether the U.S. embargo remains in place.

Keywords: Cuba; hotel development; Cuban tourism; Caribbean tourism

In June 1994, a director of Coopers & Lybrand offered the following assessment of Cuba's tourism prospects: "Despite the steady growth of Cuban tourism, that country's infrastructure is such a mess that big-name hotel operators would stay away even after a political turnaround."[1] Contrary to this view, James Macaulay, writing at the same time, saw Cuba as an island with great potential for tourism growth.[2] A few months later, in October 1994, a partner of Baker & McKenzie warned, "Cuba presents significant country risk. There are political as well as financial and legal risks, and they render Cuba unsuitable for trade and investment by U.S. firms."[3] Now, ten years later, we may have a clearer picture regarding the country's potential for tourism and hotel business. In this article, we will argue that (as Macaulay suggested) Castro's Cuba has, indeed, proved to be an excellent opportunity for hotel investors, with great potential to achieve sustainable growth and profits. Cuba has become the third most popular tourism destination in the Caribbean region, the number-two destination in the region for Europeans, and the destination recording the highest rate of growth in tourism arrivals of all Caribbean countries. These strong growth rates have been achieved as a result of the country's ability to encourage foreign hotel operators to set up business in the country and the nation's own efforts to provide a large inventory of good-quality hotel rooms, supported by diverse tourism infrastructure, facilities, and products. As we see it, socialist Cuba is gradually becoming involved in the world market and the globalization processes via tourism, which (as we explain below) has acted as the engine of the Cuban economy as the industry encourages development of its productive structure to meet its needs.

This article analyzes the changes taking place in the Cuban tourist and hotel industry in recent years and investigates the opportunities and risks involved with possible expansion into the Cuban market for hotel operators.

The purpose of this article is to analyze the changes taking place in the Cuban tourist and hotel industry in the years following the collapse of the Soviet Union and to investigate the opportunities and risks involved with possible expansion into the Cuban market for hotel operators. In the first section, we provide a background on Cuba's tourist development from before the Cuban revolution up to the present time, and we also discuss the relative success of Cuba's recent tourism-development strategy. Then, we inquire into the role of Cuban government in tourism development and the role played by foreign investors in the primary and related tourism activities. In the third section, the article provides a detailed description and analysis of hotel-company structure and foreign participation in the country. We follow by analyzing Cuba's competitive position within the Caribbean region and the specific characteristics, risks, and management challenges involved in doing business in the country. Finally, we conclude with our own thoughts on the trends in Cuba's hotel industry.

Method

Of necessity, this work is principally exploratory. Gathering market data is more difficult in Cuba than in most other countries because there are few sources of information and analysis that are independent of the government, and the media are not free to disseminate accurate descriptions of emerging developments. Official industry statistics are incomplete. Some official data are released by mention during speeches by government officials, but there is no integrated source of information. For the most part, business information must still be collected through interviews, usually with government officials or with executives of government or joint-venture companies. Even then, certain details remain shrouded in secrecy.

We used both secondary and primary research sources from fieldwork carried out in Cuba during the first part of 2003, when one of the authors held a visiting teaching position at the University of Havana, and a visit in January 2004. In-depth interviews were conducted in Havana with senior executives of Cuban hotel operators, as well as with several expatriate executives of Spanish and French hotel corporations. These include a total of eight interviews with executives belonging to three main Cuban hotel corporations (namely, Cubanacan, Gran Caribe, and Horizontes) and five foreign executives, from Accor, Barcelo, Iberostar, Riu, and Sol Melía.

We have perforce taken a qualitative approach in this study, given that data covering the six existing Cuban hotel chains are not sufficient for statistical inferences. Furthermore, there is no clear database on hotel ownership, control, or contract arrangements in Cuba. Three of the six Cuban hotel chains we contacted (by means of a prior introduction by the vice dean of international relations of the Faculty of Economics, University of Havana) agreed to be interviewed. The other three firms have company policies prohibiting interviews (i.e., Gaviota, Habaguanex, and Islazul). We arranged the interviews with the five foreign executives prior to our visit to Havana through contacts in their main offices in Madrid and Paris.

All face-to-face interviews took place in Havana, where all chain headquarters are located. All of the Cuban interviewees were CEOs responsible for the strategic decision making within their organization. Three of the foreign executives were also CEOs in charge of Cuban operations (those of Barceló, Riu, and Sol Melía). The other two were general managers of their chain's flagship hotel in the country (namely, Accor and Iberostar). Issues explored included hotel structure, investment and location decisions, management-contract negotiations, hotel management challenges, tourist development in the Cuban market, and industry trends and future projects. Interviews lasted up to two hours but were not taped due to sociocultural considerations. We have complemented these interviews with visits to different hotels in Havana and Varadero.

Finally, for some of the secondary data used in this research, we also had the support of a major Cuban government consulting agency controlled by the Ministry of Foreign Investment and Economic Cooperation—Consultores Asociados (CONAS)—the general manager of which was a former professor at the University of Havana and a Ph.D. graduate from the Universidad Autonoma of Madrid.

Background on Cuba's Tourism and Hotel Development

Cuba is the largest Caribbean island, comprising 110,922 sq. km in a land mass that stretches 1,250 km from end to end. Cuba is about 85 percent the size of England and three times larger than the Dominican Republic. The island is located at the mouth of the Gulf of Mexico, some 145 km south of the Florida Keys (see Exhibit 1). The Cuban archipelago consists of the island of Cuba, the Isle of Youth, and some sixteen hundred offshore keys and islets. Cuba has more coastline than all Caribbean Islands combined, boasting more than three hundred fine sand beaches. The nation's population is just more than 11.2 million people, three-quarters of whom reside in urban areas, including Havana (more than 2.3 million people) and Santiago de Cuba (500,000 people). Since gaining its independence in 1902, Cuba has been greatly influenced by the political, economic, and social factors in the United States. Political corruption, economic uncertainty, and

Exhibit 1:
Key Tourism Destinations within the Caribbean Region

U.S.-backed leadership led to increased dissatisfaction in the Cuban population following the 1952 coup by Fulgenio Batista y Zaldivar. That dissatisfaction was harnessed by Fidel Castro, a political activist and young lawyer, whose followers forced Batista from the country on New Year's Eve 1958, at which time Castro assumed power and established a socialist government.

Prerevolution Era: 1945-1958

Before the coup, tourism was a major industry and a primary source of hard currency and employment. Between 1948 and 1957, tourist arrivals to Cuba increased by more than 94 percent, and the nation dominated Caribbean tourism. At the tourism peak in 1957, Cuba attracted 272,265 American tourists, who accounted for 89 percent of the total number of visitors to the island. That year Cuba drew 32 percent of total American arrivals to the Caribbean region. In 1956, out of a total room stock of 10,134 in the Caribbean, Cuba had 3,716 rooms, or 37 percent.[4] The total combined room stock of the next four competing destinations in the Caribbean (i.e., Puerto Rico, Jamaica, the Bahamas, and Dutch Antilles) was less than the room stock in Cuba. Gambling, night entertainment, and sex were the main attractions apart from the sun, sea, and sand.

Postrevolution Era: 1959-1988

Following the 1959 revolution, tourism practically disappeared from the island, along with the gambling and illicit night life. In October 1959, the government nationalized all leading hotels, along with 150 other U.S.-based investments. By 1960, one year after the revolution, the number of tourists had dropped to 61,098, plummeted further to 4,180 in 1961, and dwindled to almost zero over the next two decades.[5] The loss of tourism was partly due to the fact that the U.S. market dried up as a result of the U.S. embargo imposed in 1960. More to the point, however, Cuba's strategy for economic and social development did not consider tourist activity to be a key factor in the future of the island. Part of this philosophy stemmed from the authorities' revulsion at the societal ills associated with 1950s' tourism: gambling, drugs, prostitution, and the presence of organized crime in hotels and casinos.[6] Cuba's focus turned once more to its sugar, tobacco, and mineral exports. Favorable barter arrangements with the USSR saw Cuba's sugar being purchased at a market premium, in exchange for agricultural machinery, crude oil, and technology.

1989 to the Present: The Tourist Boom

Prior to 1989, the Soviet and Eastern European bloc accounted for approximately 85 percent of Cuba's total foreign trade. About 70 percent of this was with the Soviet Union alone.[7] The 1989 collapse of the Soviet Union signaled an end to the economic subsidies and barter agreements between the two countries. Cuba lost its most important markets and sources of manufactured goods and financial support. The inefficiencies of Cuba's centrally planned economy, which had been largely obscured by external subsidies, suddenly became glaringly apparent. Without Soviet subsidies, many state enterprises were closed, and in 1990 the government imposed a program called "Special Period in Time of Peace." In short, Cubans found themselves with a surplus of pesos but nothing to buy. From 1989 to 1993, Cuba's GDP dropped 35 percent, imports plummeted 75 percent, and the deficit rose to 33 percent of GDP.[8]

To earn foreign exchange, the Cuban government started a drive in 1989 toward economic diversification and the establishment of partnerships with foreign companies. As has occurred in other transitional economies,[9] tourism was viewed as a good prospect for producing high and rapid returns and as a way to create a market for diverse goods and services supplied by Cuba's domestic industry. The first joint tourism venture was formed in 1988 by the then-new state tourist corporation, Cubanacan, with Spanish hotel group Sol Melía to build and run a hotel in the tourist resort of Varadero. This hotel—Sol Palmeras—opened in May 1990. Another hotel—Tuxpan Hotel—opened in 1990 in a joint venture with the German company, LTI International Hotels.

Cuba's 1988 reentry into world tourism drew 309,000 visitors. During the succeeding fifteen years, Cuba has experienced a tourism boom, with arrivals increasing from that 1988 figure to more than 1.8 million in 2003, representing a compound annual growth of 17.5 percent, more than three times the level of global and Caribbean tourism growth. Cuba now follows only the Dominican Republic and Mexico's Cancun in Caribbean tourism. Significant as this may seem, it should also be noted that this has been achieved in the face of the continued U.S. boycott, even though the U.S. market is the main supplier for Caribbean tourism.

Cuban Government Strategy toward Tourism and Hotel Development

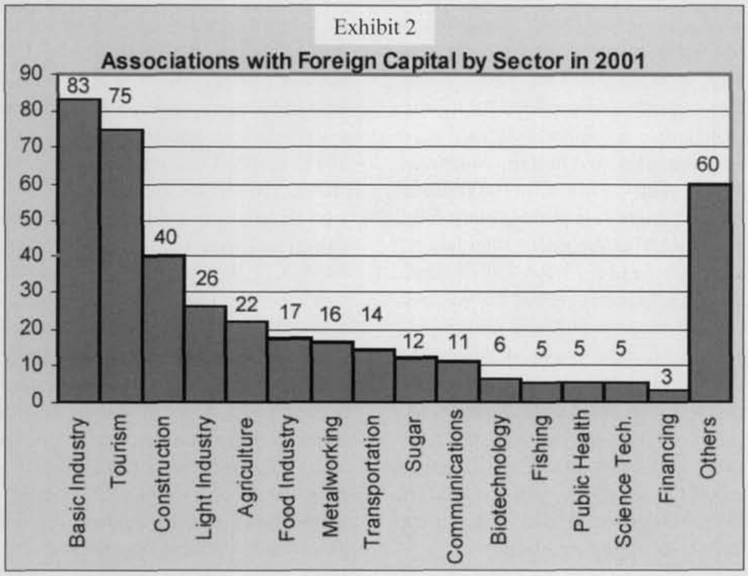
The increase in Cuban tourism can be attributed to the design and implementation of a strategy to build tourism that is based on Cuba's social and cultural assets. With the collapse of the Soviet bloc, Cuba's policy makers had no choice but to restructure the socialist economy, using elements of capitalism. Thus it was that the government was forced to loosen its grip somewhat on the country's economy. Major parts of Cuban society and industries underwent a decentralization process toward a market socialist model,[10] with tourism and foreign investment at the heart of these developments. However, as we explain later, Cuba has neither abandoned socialism nor proclaimed a systematic reform that follows the models of Chinese, Vietnamese, or any other socialism. The state retains a predominantly guiding role in economic production.[11]

Opening the country to tourism joint ventures was part of the 1990 market-based reform, which also legalized the circulation of U.S. dollars and authorized self-employment (private micro-enterprises) for some occupations. (The government also converted the majority of state farms to cooperatives or collectives at this time.) In 1992, the Cuban Constitution was amended, among other things to recognize and protect foreign-held private property, as an inducement to attract more foreign capital. The legalization of the U.S. dollar allowed all companies connected with foreign capital, including hotels, to trade in U.S. dollars, which has occurred since the opening of the first hotel in Varadero. All financial transactions and accounting within the tourism sector are also in U.S. dollars.

In 1994, the Ministry of Tourism (MINTUR) was created, and several state-run and quasi-independent tourist corporations were established for the promotion of hotel- and tourist-related foreign investment and activities. In September 1995, Cuba's National Assembly of Peoples' Power approved what appeared to be a progressive investment law. The initiative clarified laws to guarantee the free repatriation of profits, to spell out how businesses were to be run and how business disputes were to be settled, to allow the government to create duty-free zones, and to emphasize guarantees to foreign investors against expropriation and third-party claims. In addition to allowing profit repatriation, the government made considerable tax concessions—all of which stimulated interest from foreign companies. In spite of the U.S embargo and the Helms-Burton law of 1996 (which we discuss below), the number of international economic associations and joint ventures had risen to 403 by the end of 2003, broadly diversified in some thirty-five sectors (see Exhibit 2).[12] Seventy-five out of the 403 ventures (or about 19 percent) are in the tourist industry, of which more than 30 were classified as hotels.[13] In the 1990s, the greatest percentage of economic associations with foreign capital was linked to basic industries (mainly, oil, energy, and mining), followed by tourism, construction, and light manufacturing. Many of the investments in industries other than tourism are somehow connected to the tourist infrastructure and services. Those are, for instance, energy (Cuban Canadian Energas), water (Cuban Spanish Aguas del Oeste), cement and construction (Cuban and Swiss-Spanish Iberzuizas), telecommunications (Cuban Italian Etecsa and Cuban Canadian Cubacel), and supplies for the tourist sector.

Since the inception of the government's new policy, the nation has built a tourism industry with hotels, resorts, restaurants, retail shops, airports, and ancillary services virtually from scratch. By the late 1990s, twenty-five joint-venture companies were providing Cuba with the cash and know-how it needed for growth. These companies, including Accor, LTI, Mirama, Riu, Sandals, SuperClubs, and Sol Melía, have contributed to the con-

Exhibit 2:
Associations with Foreign Capital by Sector in 2001



Source: Minvec (Ministerio de la Inversión Extranjera y la Cooperación Económica), *Guía para la inversión en Cuba* (Habana, Cuba: Centro de Promoción de Inversiones de la Habana, 2002).

struction of some 13,100 rooms. These first injections of capital into the tourist sector were accompanied by other inflows of foreign direct investment (FDI) in primary and secondary areas of tourism demand. Tourism development helped the Cuban government to obtain FDI in specific industries that are potential suppliers to tourism.

Over the past fifteen years, tourism operators have developed local connections for goods and services. In 1990, practically all products used by hotels and restaurants had to be imported at high prices due to the lack of local production and financing and the U.S. embargo. However, through international joint ventures, the proportion of domestically produced goods provided to the tourist industry has increased from 12 percent in 1990 to 67 percent in 2001.[14] Furthermore, sectors related to the tourism industry operate in an environment of competition. Tourist demand has become an economic engine as a result of a basic principle, which is not to force any tourist entity to buy national products, especially if those products are not considered internationally competitive.

Joint ventures and cooperative production agreements with such companies as Swiss Nestlé, Anglo-Dutch Unilever, French Pernord-Ricard, Canadian Labatt Brewing, and Spanish Freixenet, among others, have, for instance, allowed the food and beverage industry to be fully able to keep up with the developments in the tourist sector. Today, such arrangements supply 76 percent of tourism demand. Foreign investments have also ensured sufficient goods and services for tourism in such areas as phone systems, paper products, textiles, and building materials.

Other joint-venture arrangements focused on upgrading and building infrastructure, such as the major international airports located in the main tourist zones. A Canadian company rebuilt the Varadero airport, for instance, and built the new Terminal 3 at Havana's Jose Martí international airport. Another joint venture, formed by Cuban, Canadian, Spanish, and German corporations, financed, built, and operate the new airport at Cayo Largo, an island off Cuba's north-central coast. The new airport is operated by AENA, a Spanish airport-management company.

To promote and market Cuban Tourism abroad, MINTUR opened offices in Argentina, Brazil, Canada (Toronto and Montreal), England, France, Germany, Italy, Mexico, Russia, Spain, and Sweden. MINTUR participates in the major tourism trade fairs in Canada, Europe, Japan, and Latin America. These promotional efforts are also complemented by others undertaken by Cuban tourism and hotel corporations, which maintain branch offices in various European and American countries. MINTUR has also established strategic alliances with the main international tour operators and hotel chains for specific promotions. For instance, in June 2004, the first TV campaign for Cuban tourism was broadcast in Spain, in collaboration with Sol Melía and Travelplán, a major Spanish tour operator,[15] promoting a combined destination featuring sun, beaches, and Cuba's historical cities. In October 2004, MINTUR, together with Sol Melía and Mexican tour operators, launched a campaign in Mexico to promote family tourism on the island.[16] Based on its specific characteristics, Cuba's tourism-promotion strategy is built around its three main attractions—beach resorts, history and colonial architecture, and nature and ecotourism—as part of an effort to minimize the image of Cuba as a land of only sun and beaches. Health-oriented tourism is another option promoted by MINTUR, taking advantage of the recognized international prestige of Cuban medical science.[17]

The tourism ministry has targeted eight regions around the island for tourism development. Cuban tourism is highly concentrated in the two poles of Havana and Varadero beach, which together generate 70 percent of tourist revenue. The nation seeks a better balance throughout the island, shifting its emphasis since 1999 to six other regions and investing $700 million to date in regional infrastructure (see Exhibit 3). The six regions are also home (or close) to the majority of Cuba's natural, historic, and cultural attractions, including the seven UNESCO World Heritage Sites. Cuba also benefits at the moment from the mystery and added attraction of its still being the home of one of the world's few existing socialist revolutions. In that vein, the latest tourist product launched is named Ruta Guerrillera (Guerrilla's Route), in honor of Ernesto "Che" Guevara, who is interred in Cuba, where he participated with Castro in overthrowing the Batista regime, and who was Cuba's early minister of industry.[18] For those of less revolutionary outlook, Cuba is also the place where Ernest Hemingway spent one-third of his life.

In addition to committing tangible and commercial capital, the government

Exhibit 3:
Major Hotel Nodes and Tourism Development Regions

EXHIBIT 3:
Major Hotel Nodes and Tourism Development Regions

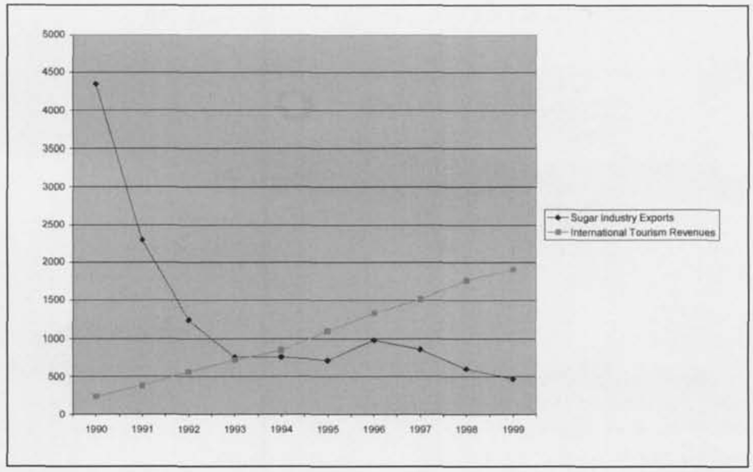
implemented a countrywide program for developing the human resources needed for Cuba's tourism sector. Cuba already has the most educated population within the Caribbean. Of the 11.2 million residents, 95 percent are literate. Cuba is using that considerable strength to choose and train employees for tourism. In 1994, all tourist training centers were consolidated into a network known as Formatur—the national training and education agency for the tourism and hospitality sector. Today, Cuba's twenty-two hospitality schools, with more than one thousand teachers, now train some twenty thousand students and issue an equivalent number of certificates annually.[19] Formatur has also introduced a rapid one-year education program to convert managers from other fields into assistant managers of hotels.[20]

In sum, as Cuba's most successful sector, tourism has been acting as the engine for the Cuban economy in the 1990s, overtaking in terms of revenues and strategic importance Cuba's traditional industries, notably, sugar. Exhibit 4 compares the value of exports of the sugar industry and revenue from international tourism for the period of 1990 through 2000. As shown in Exhibit 4, tourism surpassed the sugar industry as Cuba's strongest economic sector and main generator of export revenues in 1994.

Hotel Structure and Foreign Participation

To develop the tourist sector according to international standards, the Cuban government attempted to apply "private sector" management to certain hotels and to transfer hotel and tourism management

Exhibit 4:
Sugar Exports and Tourism Revenues, 1990-1999 (in millions of pesos)



Source: J. F. Pérez-López, *The Cuban Economy in an Unending Special Period* (Washington, DC: Association for the Study of the Cuban Economy [ACSE], 2002), 507-21.

skills to the country. This led to a restructuring of the hotel sector, creating the semiautonomous tourist corporations and hotel chains that we have already mentioned, which dominate the market. These are Cubanacan Corporation, Hotel Group Gran Caribe, Horizontes Hotels, Habaguanex, Gaviota Tourist Group, and Islazul. These organizations group together different types of hotels, restaurants, and travel packages relating to all tourism-related activities and needs within the island (e.g., airport transfers and transportation services, travel agencies, and insurance).

Among these, the oldest and largest is the Cubanacan Corporation, which accounts for more than 40 percent of the tourist market. It was formed to operate four- and five-star hotels, restaurants, cafeterias, retail stores, water and other recreation centers, health facilities, and reception centers. It has nine offices in Europe and the Americas and twenty-three joint ventures for the development of hotels and other businesses. Cubanacan owns twenty-seven hotels located on beaches and in cities; thirty-eight health centers and hotels specialized in health tourism; two marinas, ten diving centers, and nine fishing locations; fifteen entertainment centers; one reception and travel agency; one transportation agency offering transfer, car-rental, and taxi services; and one conference center on famous Varadero beach. Its restaurant division, Palmares, owns and manages fifty-two restaurants and cafeterias in towns and beaches throughout Cuba.

Cubanacan is involved in many of the four- and five-star hotels, administered as either international economic association contracts or joint ventures. Joint investment arrangements have been developed by Cubanacan with Grupo Sol Melía (Spain), LTI (Germany), Golden Tulip (Holland—now part of NH Hotels from Spain), SuperClubs (Jamaica), and most recently, Barceló Hotels and Resorts (Spain).

Gran Caribe Hotel Group owns forty-eight four- and five-star hotels, with more than eleven thousand rooms for tourists scattered throughout the country, although most of them are located in Havana and Varadero. Half of its hotels are operated by well-known international chains, such as Accor, Iberostar, Riu, and Sol Melía. Gran Caribe directly operates the following three main brands: Classic, which involves five city hotels, including landmark hotels such as the Hotel Nacional de Cuba and the Hotel Inglaterra; Premium, which comprises seven luxury city and beach hotels; and Club, which is thirteen hotels, mainly vacation properties. In addition, the group operates three primary tourist attractions in Havana, the Restaurant La Bodeguita del Medio, Bar and Restaurant La Floridita, and the Cabaret Tropicana chain. It also franchises its restaurants internationally, with locations in Italy, France, Spain, Mexico, and Abu Dhabi.

Horizontes Hotels operates forty-four properties, mostly holding two or three stars, comprising more than seven thousand rooms. Horizontes is the third-largest hotel chain in Cuba, with hotels in almost all provinces of the country, main cities, major national parks, and places of ecological interest. It also operates two- and three-star all-inclusive hotels in Varadero beach and facilities with mineral-water baths, treatments for stress, and one spa.

Habaguanex was founded in 1994 to provide a cultural historic product focused mainly on old Havana. Belonging to the Historical Office of Havana, Habaguanex started out with a modest number of restaurants and quickly became a fast-growing tourism company operating a wide network of restaurants (more than thirty), cafeterias (more than sixty), and shopping outlets, including one department store (Harris Brothers Departments). Habaguanex owns and operates sixteen three- and four-star hotels for international tourists in the Historic Center of Old Havana (a UNESCO World Heritage Site since 1982), with approximately thirteen hundred rooms.

Gaviota Tourist Group is a company controlled by the Revolutionary Armed Forces. With businesses that include operation of four- and five-star hotels and development of marinas, recreational water facilities, and health facilities for tourists, its twelve hotels, generally located in the main tourist destinations and ecological areas, offer twenty-four hundred rooms for international tourists. Most of its hotels are operated by international firms, such as Accor, Club Mediterranée, Maritim Hotel Group, and Sol Melía.

Islazul was established to develop two- and three-star hotels for international tourists seeking low-cost accommodations. It owns and operates a total of twenty-eight hotels around the country: thirteen city hotels, four beach hotels, and eleven ecological tourism hotels, with a total of thirteen hundred rooms. Today, many of its hotels are also targeted toward domestic tourism.

These six Cuban hotel operators have established links with many non-U.S. international hotel operators in the past ten years. In contrast to the experience of other transitional economies, such as China,[21] those links have helped the country develop a simple and centralized hotel structure, based on a mix of Cuban and foreign investments and management deals. Joint ventures were the predominant form of foreign participation in the early 1990s, when domestic capital and management know-how was scarce. Eleven hotels were built under 50 percent joint-venture agreements in the first years of the 1990s, and many others were constructed by the Cuban government and managed by foreign hotel firms. In the late 1990s and the beginning of the 2000s, Cuban corporations have increasingly assumed a 100 percent investment in new hotels, and new arrangements, such as hotel management contracts, have been used more frequently as Cuba recovered from the depths of its 1992 to 1993 economic crisis and had domestic capital to invest in hotels. Unlike other Caribbean countries, such as the Dominican Republic, Mexico, or Jamaica, Cuba has financed its hotel investments mainly with local capital while applying the management know-how of foreign hotel corporations. Moreover, two Cuban hotel chains—Cubanacan and Gran Caribe—are among the one hundred top hotel chains in the world (Cubanacan at sixty-five and Gran Caribe at eighty-two)[22] and have become the second and third in Latin America, just behind the Mexican Group Posadas Management.

Cuba's hotel supply, in terms of international quality hotels, grew from about 10,000 rooms in 1988 to 47,500 in 2003, representing an average annual increase of more than 10 percent. Over the same period, arrivals in Cuba grew by 13 percent, raising the average room occupancy from about 55 percent in the initial years to more than 65 percent today. Based on travel agencies' sales brochures and hotel web information, the total number of hotels at the end of 2003 amounts to 263, giving Cuba the second largest hotel capacity in the Caribbean. Of Cuba's 263 hotels, 32 properties are five-star hotels, 102 properties are four star, 87 properties are three star, and 42 properties are two star. Of the 47,500 rooms available in the country, nearly 70 percent have a four- or five-star rating. Moreover, by the end of 2003, more than half of the country's hotel capacity (56 percent, or 26,500 rooms) was administered by seventeen international hotel chains under hotel management contracts. At the same time, 73 out of the 263 hotels intended for foreign visitors to Cuba are under international management, with that trend strongly on the rise (see Exhibit 5). Spanish hotel corporations have a leading position in the market, managing more than 17,000 rooms, or nearly 40 percent of those dedicated to international tourism. Of all Cuban-owned or joint-venture hotels under foreign management contracts, Spanish hotel corporations manage three-quarters of them, representing 78 percent of all foreign-managed rooms. Sol Meliá Group, the leading foreign operator, manages 23 hotels with 9,450 rooms, representing nearly half of all foreign-managed rooms in the country (42 percent).

Of the total supply, just more than 14,000 hotel rooms are located in Havana, while about 17,000 are in Varadero. The new important nodes of hotel supply are the North Holguin area (4,780 rooms), Jardines del Rey region (3,800 rooms), North Camaguey (3,300), Santiago de Cuba (2,100), Canarreos (1,400), and the Trinidad-Cienfuegos area (1,300)—see Exhibit 3.

Exhibit 5:
Hotel Structure in Cuba

Ownership and Operation	Cuban Operator	Foreign Partner (Country)	Hotels	Category Number of Stars	Rooms
State owned and foreign managed	Cubanacan	Iberostar (Spain)	3	4&5	1,060
	Cubanacan	Brau (Spain)	1	5	458
	Cubanacan	Sol Melia (Spain)	3	5	1,216
	Cubanacan	Sandals (Jamaica)	2	5	754
	Cubanacan	Superclubs (Jamaica)	2	4	520
	Cubanacan	LTI (Germany)	2	4	680
	Cubanacan	Barcelo Hotels (Spain)	1	4	510
	Cubanacan	Valtur (Italy)	1	4	400
	Gran Caribe	Iberostar (Spain)	2	4	690
	Gran Caribe	Riu Hotels (Spain)	3	4	666
	Gran Caribe	Hotels C (Spain)	3	4	855
	Gran Caribe	Barcelo Hotels (Spain)	4	4	850
	Gran Caribe	Sol Melia (Spain)	8	4&5	3,242
	Gran Caribe	Superclubs (Jamaica)	1	4	532
	Gran Caribe	Accor (France)	3	4&5	875
	Gaviota	Sol Melia (Spain)	9	4&5	3,647
	Gaviota	Occidental Hotels (Spain)	3	4&5	1,458
	Gaviota	Brau (Spain)	1	4	325
	Gaviota	Grupo Piñeiro (Spain)	1	5	225
	Gaviota	Maritim (Germany)	3	4	930
	Gaviota	Superclubs (Jamaica)	1	5	480
	Gaviota	Grand Med (France)	1	5	550
	Horizontes	Hotetur (Spain)	2	3	800
	Horizontes	Brau (Spain)	1	4	169
	Horizontes	CRET (Spain)	1	3	85
		Subtotal	62		21,977
Joint venture and foreign managed	Cubanacan	Brau (Spain)	1	5	395
	Cubanacan	Brau (Spain)	1	4	356
	Cubanacan	Sol Melía (Spain)	3	4&5	1,345
	Cubanacan	NH Hotels (Spain)	1	4	277
	Cubanacan	LTI (Germany)	1	4	350
	Cubanacan	Superclub (Jamaica)	1	4	400
	Gran Caribe	Leisure Canada (Canada)	1	5	850
	Gran Caribe	Accor (France)	2	5	585
		Subtotal	11		4,558
State owned and managed	Cubanacan		65	2, 3, & 4	4,900
	Horizontes		44	3	7,000
	Gaviota		12	3, 4, &5	2,010
	Gran Caribe		25	4&5	4,551
	Habaguanex		16	4	1,300
	Isla Azul		28	2&3	1,300
		Subtotal	190		21,061
Total number of hotels and rooms			263		47,596

Source: Elaborated by the authors from interviews, Web information, and Directorio Turístico de Cuba 2003.

During the 1990s, Cuba's hotels were generally accorded a star rating higher than those recognized elsewhere in the world, and categories had to be reduced by one star to conform to international standards.[23] Despite that change, the introduction of new hotel concepts through joint ventures and management contracts with foreign partners has allowed Cuba to change its image of mediocre- or poor-quality hotels, lack of professional staff, and poor service. Hotel developments during 2003 in both beach resorts and urban areas have generally been higher in quality than earlier developments. From field research and personal experience, we could say that the hotels' conformance to their stated ratings has improved considerably. However, to really meet international standards, the hotels' ratings should still be reduced by perhaps half a star.

International associations have provided Cuban hotel corporations with a great deal of know-how, management services, and marketing skills, which have encouraged Cuban corporations to fully manage some of their newly established properties. Resorts (such as the all-inclusive five-star, 944-room Playa Pesquero Resort, a $100-million investment and the biggest hotel in the country,[24] owned and managed by Cuban group Gaviota, or the Gran Caribe Hotel Varadero International) compete in quality and service with other international well-known hotels. Additionally, Habaguanex Group offers a customized and high-quality service in its sixteen historical quasi-boutique hotels.

Furthermore, industry experience and know-how have also encouraged Cuban operators to establish ventures with foreign partners in other markets. In Mexico, Cubanacan holds an "unspecified" stake in the Paradisus Riviera Hotel in Cancun in partnership with Sol Melía Group. On nearby Cozumel Island, Cubanacan manages three "independently owned" hotels, including the Hotel Cozumel & Resort. In China, Cubanacan and China's Suntime International are partners in a jointly owned five-star, seven-hundred-room hotel in Shanghai, also managed by Sol Melía.

An important challenge for the Cuban government is to balance hotel investments and those related to developing other tourist facilities. During the 1990s, the construction of hotel rooms accounted for 73 percent of tourism investments. The remaining 27 percent was devoted to infrastructure (11.3 percent for airports and 5.6 percent for a series of causeways) in the Coconut Key region, leaving other tourist-related investments such as restoration and recreation with only 13.8 percent of the total. The result has been an imbalance between hotel investment and that in tourist attractions.[25]

In this regard, the Cuban government is seeking to speed up investments in non-hotel facilities and infrastructure, such as golf courses and marinas, that make the industry more competitive and profitable. Cuba wants to funnel much of the tourist revenues back into this type of investment, and joint ventures allow Cuba to preserve its own capital to use in these projects. With the exception of Habaguanex, which holds only historic properties and cannot enter into joint ventures,[26] the other Cuban hospitality companies are seeking partners to invest in new hotel developments in the near future. In the following years, it is expected that all new projects for large-size hotels of the four- and five-star category will be carried out only with capital investment by and management agreements with foreign partners.

With this goal in mind, the government is placing restrictions on new agreements. A CEO of a Spanish hotel chain stated, "For example, foreign direct investment in

Exhibit 6:
International Tourist Arrivals by Country of Destination—Major Cuban Competitors

	International Tourist Arrivals (in thousands)					*Market Share in the Region (%)*		*Average Annual Growth (%)*	
	1990	*1995*	*2000*	*2001*	*2002*	*1995*	*2002*	*1990-1995*	*1995-2000*
Total North America	71,747	80,491	91,213	84,388	81,616	74.0	71.1	2.3	2.5
Mexico	17,176	20,241	20,641	19,810	19,667	18.6	17.1	3.3	0.4
Total Caribbean	11,400	14,025	17,180	16,902	16,058	12.9	14.0	4.2	4.1
Bahamas	1,562	1,598	1,544	1,538	1,402	1.5	—	0.5	–0.7
Cuba	327	742	1,741	1,736	1,687	0.7	1.4	17.8	18.6
Dominican Republic	1,305	1,776	2,973	2,882	2,811	1.6	2.4	6.4	10.9
Jamaica	989	1,147	1,323	1,277	1,266	1.1	1.1	3.0	2.9
Martinique	282	457	526	460	448	0.4	0.4	10.1	2.9
Puerto Rico	2,560	3,131	3,341	3,551	3,087	2.9	2.7	4.1	1.3
UA Virgen Is	463	454	607	592	553	0.4	0.5	–0.4	6.0
Total Central America	1,945	2,611	4,345	4,417	4,701	2.4	4.1	6.1	10.7
Costa Rica	435	785	1,088	1,131	1,113	0.7	1.0	12.5	6.8

Source: World Tourism Organization (WTO), data as collected by September 2003. See http://www.world-tourism.org/facts/menu.html.

Havana, Varadero, and Cayo Largo is generally conditioned by our investment in other areas of the country." According to the Tourism Ministry, at the start of 2003 there were twenty-seven hotel companies involving foreign partners, for a combined commitment to build new 15,600 rooms. At this writing, 4,800 of those rooms have been completed.

This vision for the future of Cuban tourism finds realization in Cayo Coco and its neighbor, Cayo Guillermo, located thirty-five minutes from Nassau by plane. Construction in Cayo Coco began in 1988, the first hotel was completed in 1993, and nine hotels with thirty-eight hundred rooms now grace this forested key. The government requires all construction on the keys to complement the natural environment. Only 7 percent of the entire area is developed, and plans call for construction of fifty hotels with some twenty thousand rooms. To support this growth, the government has constructed an international airport, a new marina with a three-hundred-slip capacity, and one golf course, with two others under development. The state even established a town in Cayo Coco for tourism training, and three thousand workers in the area have graduated from this newly founded school. To date, Cuba has invested US$400 million in the area without the benefit of joint ventures.

Market and Competitive Analysis

Exhibit 6 reflects the trends in tourist arrivals to Cuba, market share, and average annual growth compared to other Caribbean countries. As we stated above, Cuba's share of Caribbean tourism increased during the 1990s, from an average of 3 percent during the 1980s to about 10 percent in 2002. The economic downturn of 2001 and the travel scare that followed

Exhibit 7:
International Tourism Receipts by Country of Destination—Major Cuban Competitors

Major Areas and Markets	International Tourist Receipts (US$ million) 1990	1995	2000	2001	2002	Average Per Tourist (US$) 2002	Per Capita Receipts (US$) 2002	Market Share in the Region (%) 1995	2002	Average Annual Growth (%) 1990-1995	1995-2000
Total North America	54,813	77,456	101,534	91,068	85,105	—	—	77.7	74.5	7.2	5.6
Mexico	5,467	6,179	8,295	8,401	8,858	450	90	6.2	7.8	2.5	6.1
Total Caribbean	8,712	12,185	16,993	17,125	16,616	—	—	12.2	14.5	6.9	6.9
Bahamas	1,324	1,346	1,719	1,636	1,580	1,055	5,147	1.4	—	0.3	5.0
Cuba	243	963	1,737	1,692	1,633	968	146	1.0	1.4	31.7	12.5
Dominican Republic	900	1,568	2,860	2,798	2,736	973	322	1.6	2.4	11.7	12.8
Jamaica	740	1,069	1,333	1,233	1,209	955	468	1.1	1.1	7.6	4.5
Martinique	240	384	302	245	249	556	630	0.4	—	9.9	-4.7
Puerto Rico	1,366	1,828	2,388	2,728	2,486	805	643	1.8	2.2	6.0	5.5
UA Virgen Is	697	822	1,292	1,323	1,240	2,242	13,333	0.8	1.1	3.4	9.5
Total Central America	735	822	1,292	1,323	1,240	—	—	0.8	1.1	3.4	9.5
Costa Rica	275	660	1,229	1,096	1,078	969	268	0.7	0.9	19.1	13.2

Source: World Tourism Organization (WTO), data as collected by September 2003 and own elaboration. See http://www.onecaribbean.org/home/.

the September 11 attacks combined to stop the growth of Cuban tourism in 2001 and 2002. In concert with the rest of the Caribbean, however, growth resumed at the end of 2002 and in 2003, with an increased volume of almost 16 percent over the previous year. Cuba's 10 percent market share is impressive in view of the U.S. boycott, especially when one notes that more than seven hundred thousand U.S. tourists travel to the Dominican Republic annually, and much of Puerto Rico's tourism is based on Puerto Ricans going back home to visit friends and relatives.[27]

In 2003, gross income from international tourism rose by 16 percent (to a total of US$1.9 billion) after having declined in the preceding two years (see Exhibit 7). The upturn reflected a 13 percent increase in the number of visitors (to a total of 1.8 million arrivals) and a 4 percent increase (to 47,500 units) in the number of rooms available. Data from the first half of 2004 show that the influx of tourists rose by more than 10 percent, thus increasing the likelihood that the target level of 2 million visitors will be met in 2004.[28]

An analysis of tourism arrivals indicates that Canada is the single largest source country for tourism to Cuba, representing 23.7 percent of all arrivals, with the absolute number growing by an average of 12 percent annually to its 2003 level of four hundred thousand. In regional terms, Europe is in second place with 54 percent of all tourist arrivals in 2003 (following North America), with tourists coming principally from France, Germany, Italy, Spain, and the United Kingdom. Among Latin American countries, Mexico, Argentina, Colombia, and Chile are the major suppliers of tourists to Cuba. Other countries are emerging as important source markets, with tour groups from Japan, China, and other Asian countries starting to show a stronger presence.

Because Europeans generally stay longer and spend more than tourists from other locations, drawing tourists from Europe improves expenditure and length-of-stay statistics, limits the cyclical nature of tourism by spreading recession risks among various regions of origin, and smoothes seasonality. Contrary to the rest of Caribbean destinations, where the majority of visitors arrive during the colder months of the northern hemisphere, Cuba's high season is in the northern hemisphere's summer. Cuba's success in targeting the European market, which typically vacations during the summer, has resulted in strong visitation levels from this area from June to September. However, tourists from Canada, and to a lesser extent from Argentina and Chile, offset that seasonality by arriving in the winter months.

As we mentioned above, overall occupancy rates average 65 percent, and typical average daily rates (ADRs) range from US$50 to US$140. Havana remains steeply seasonal, with occupancy rates fluctuating widely, from less than 50 percent to more than 90 percent, depending on the season. In the resort capital of Varadero, where occupancy averages are often highest, occupancy dips to about 62 percent during the low season and averages 75 percent overall. Varadero's annual ADR averages US$75. In the new development areas, such as Cayo Coco and Cayo Guillermo, average occupancy rate during 2003 was 56 percent, and the latest data indicate that hotels there have reached 90 percent in January and February 2004,[29] thanks mainly to Canadian tourists.

Most of the CEOs interviewed agreed that over the past fourteen years, the Cuban tourism industry has produced above-average gross operating profits (GOPs) in most hotel groups. The island has consistently been Sol Melía's most profitable market during recent years. At the same time, the Sol Melía Group has proved to be Cuba's most influential strategic tourism asset because the group's performance has encouraged the initiatives of competing corporations. As an illustration of Cuba's value, Sol Melía's total group management fees increased by only 0.9 percent worldwide in 2002, with a 9.3 percent decrease in Latin America and the Caribbean. Despite that difficult year, management fees in the Cuban division have increased by 2.5 percent.[30] As a whole, in 2003, Sol Melía's twenty-three hotels registered an average occupancy rate of 75.7 percent and an ADR of $78.

Like the Sol Melía Group, other hoteliers consider Cuba to be a profitable market. A manager from Super Clubs was quoted as saying that "we are making good profits" in the four hotels that it operates.[31] Another executive, from Barceló Hotels and Resorts, has also confirmed "consistent above-average GOPs, despite the U.S. trade embargo." Today, the overall average room rate in the country is in accord with Caribbean average prices, exceeding US$70-80.[32] The rate growth reflects the changes made by Cuba in recent years, moving from a "one-dimension destination,"[33] in which price is the main purchase motivation, to being a more competitive and complex destination that offers beach resorts, history, and colonial architecture, and nature and ecotourism.

In the past, Cuba's market has seen the vast majority of travelers arriving via charter airlines on low-price, all-inclusive package tours that focused on sun, sea, and sand. To draw high-spending visitors, investments are being made in golf courses, museums, marinas, restaurants, and other facilities that make Cuba a more complete destination. To take advantage of its status as a World Heritage Site, Havana is being restored to its former splendor. Colonial history, architecture, music and art, diving, and nature tourism are just a few areas that are providing new added value and setting up the basis for the development of a more integrated, sustainable, and sophisticated assortment of tourist offerings. Ecotourism opportunities in Cuba will compete with those of other nations in the area.[34] Health-oriented tourism is another attraction, given the recognized international prestige of Cuban medical science.[35] Today, many visitors combine beach and city holidays, dividing their time between a resort and cities or natural parks.

The Cuban hotel CEOs are confident that Cuba offers a mixture of attractions that the rest of the Caribbean does not provide. Said one, "It has culture and historical heritage, a very low crime rate, and genuinely friendly and literate people, natural attractions, unique public health services, and a rich cultural life—all in addition to the sun and the sand." According to an executive from Sol Melía, "The island's safe environment for tourists is a key competitive advantage vis-à-vis its Caribbean neighbors." Cuba's relative safety is highlighted by a report by the Canadian Tourism Commission on Latin America and the Caribbean region, which points out that safety and security threats are a major constraint for tourism growth in the region.[36] The curiosity factor for Cuba is also a significant variable. As a CEO from Accor Group pointed out, "Many young tourists from France wanted to go to Cuba before Castro dies. They want to see a communist country in the sun. And it is cheaper than Spain."

Finally, since the development of tourism on islands like Cuba depends on transportation, Cuba has improved its air traffic capacity to meet the needs of the tourist industry, with eleven international airports now served by ninety foreign airlines. The government is also expanding its capacity to host cruise ships. Cuba plans to open its second cruise ship terminal in Havana in 2005, and the existing terminal in Havana has been expanded to accommodate five ships rather than four in anticipation of an expected increase in ship calls. A division of Cubanacan provides tourism services to the fourteen cruise ships that regularly arrive in the four major Cuban ports. The Cuban government expects 140,000 cruise ship passengers to visit the island in 2004, compared to 120,000 in 2003, according to Cubanacan.

Management Problems and Challenges

The attractiveness of these opportunities is mitigated by the continuing embargo on Cuba by the United States, including legislation that attempts to impose U.S. law on companies in other countries. In 1992, the United States tightened its embargo with the Cuban Democratic Act, and the U.S. Congress passed the Helms-Burton Law in 1996. These two measures meant, among other things, that ships docking in Cuban ports could not enter the United States during the next 180 days, that U.S. subsidiaries overseas could not sell to Cuba, and that foreign companies could be sued in U.S. courts for trading with or investing in U.S. citizens' confiscated property.

A Spanish executive of a five-star hotel echoes the concerns of general managers across the island when he says that "the items imported can be as much as twice as expensive as in other Caribbean locations" because he cannot buy from the closest supplier, the United States. He estimates that the trade embargo causes a 4- to 5-percentage-point decrease in his GOP, a cost of $1 million in his hotel alone. Therefore, reducing the import component of tourism is an explicit policy goal in Cuba, and significant progress has been made, as we analyzed above. A British study estimated that U.S. sanctions have imposed on Cuba a "virtual penalty" of 30 percent on imports because of the increased purchasing and shipping costs entailed to avoid the U.S. embargo.[37] Beyond the embargo, the U.S. anti-expropriation law is worrisome. Another CEO stated that "there is always the risk of 'owning' or 'sharing' contested land. Close to 6,000 U.S. expropriation claims have been filed since 1961."

However, for most hotel-management corporations, risks are relatively low. A CEO from Iberostar Hotel Group expresses his cautious mind-set with regard to Cuba as follows: "As you can imagine, we are hardly likely to go there and invest not knowing the future circumstances. So the arrangement is relatively simple, with management contracts. Our investment is limited to our skill, expertise, and marketing ability." In this regard, another executive followed by saying, "Cuba is offering a good management fee with zero investment, offering brand-new four- and five-star hotels. You cannot get that anywhere else." However, as we mentioned above, this "free ride" will end in the near future, as the Cuban government is seeking foreign hotel chains to share investment in new hotel joint ventures.

Although the U.S. laws increase the risks and costs for foreign companies in the Cuban market, they also provide a form of safe harbor by preventing U.S.-based competitors from entering the market. Several executives have pointed out that market opportunities are interesting due to the lack of U.S competition. The Sol Melía CEO emphasized the importance of the current absence of the large U.S. hotel chains in this market, coupled with the potential for profitability should economic and political relations with the United States eventually improve.

Other management problems that foreign hotel managers face in Cuba are typical of those in a centralized economy. They include excessive bureaucracy, increasing corruption, ever-changing legislation, and costly dollar payments to Cuban workers recruited by a state entity. The employment system that requires third-party payments in dollars is particularly challenging. Though Cuba has a well-educated workforce that is highly motivated to work for foreign hotel corporations, the labor market could easily be considered a deterrent to foreign investment. Foreign-operated hotels must hire all their employees through an employment agency. Although employers have the right to fire a worker and request a replacement, they are not permitted to select the candidate of their choice in the first place. They are also required to pay the employment agency rather than paying the worker directly, and they are asked to pay a monthly base salary in U.S. dollars, plus an additional 25 percent for pension, workers' compensation, and holiday pay. Wages are centrally established and are the same all over the country for all hotel corporations. Monthly salaries range from US$300-1,500 per month.

The hotel's workers do not benefit from the value of those third-party dollar payments, however. Instead, the government pays the worker in pesos rather than dollars, at a conversion rate of 1 peso per 1 U.S. dollar, even though the market exchange rate is closer to 26 pesos to the dollar. The government also reserves the right to "rationalize" or "equalize" salaries. So, for example, a Spanish hotel corporation might pay the employing agency US$500 per month for each restaurant manager, but that person actually receives from the employment agency 500 cuban pesos, worth about US$20. Just to give an idea of the purchasing power of that $20, a one-liter bottle of vegetable oil costs US$2.20 in the state hard-currency retail stores, the only stores where one can find vegetable oil.

Foreign investors and hoteliers find requirements such as these to be onerous. They result in higher employment costs, diminish the motivation of workers, and limit the implementation of Western-style HR compensation practices and incentive systems. The concepts of incentives or stimulation pay are foreign to the socialist system, so it is extremely difficult for foreign hotel corporations to offer a high base salary or productivity bonuses. As a result, employee theft is rampant due to workers' subsistence wages. Thefts typically involve all the employees in a department; to make sure no one rats out the culprits, all employees share in the proceeds, even managers and those on vacation. "It is a very socialistic way of stealing," says a senior hotel manager. Furthermore, because there is little opportunity for financial gain, general managers find it difficult to motivate staff to take on additional responsibility or do jobs to the best of their ability.

An additional complication for foreign operators are Cuban executives close to the government, who are typically found at the hotel management level. According to one European CEO, "These people are often retired military, party, or government officials." These Cubans in executive positions typically work for the State Security Agency and must try to obtain intelligence from foreign partners.

Future for Hotel Development in Cuba

Despite its rapid growth, Cuba's tourism sector is still small, in Caribbean terms, relative to the size of its economy, and it is safe to assume that Cuban tourism will continue to grow substantially even if U.S. policy remains unchanged.

MINTUR estimates a potential shortfall of forty-six thousand rooms by 2010 under its medium-growth estimates, and sixty-three thousand if high-growth estimates are realized. These forecasts are based on continuing development of Cuba's tourism facilities, combined with a projected 50 percent increase in Caribbean tourist arrivals between 2000 and 2010. By the year 2010, Cuba officially expects to receive 5 to 7 million visitors—still without U.S. tourism—generating gross profits and tax revenues of US$5 billion.

However, within the current international scenario (given such threats as terrorism and falling economy growth rates), the growth of tourism arrivals is unlikely to maintain the strong rate of the past ten years. Indeed, if Cuba continued its recent 10 percent annual growth rate for the next five years, the number of arrivals would increase to more than 3 million by 2008. At that rate, if occupancy levels, average length of stay, and number of guests per occupied room were not to change, Cuba would require a total of seventy thousand rooms, or the addition of twenty-three thousand rooms over today's level.[38] This scenario initially appears to be reasonably realistic, except when one considers that the actual level of increase over the past five years (1988-2003) has been a total of only ninety-five hundred rooms. Regardless of which scenario comes true, the Cuban government's return to favoring joint ventures with foreign partners could provide the capital necessary to keep hotel and room growth on pace with anticipated tourism levels.

Another scenario focuses on the question of how many travelers from the

United States would tour Cuba if travel restrictions were lifted. Estimates vary widely regarding this matter. In its 2001 report, the U.S. International Trade Commission (USITC) predicted that, absent all sanctions on trade with Cuba, only 100,000 to 350,000 U.S. residents would travel to Cuba each year, primarily as tourists.[39] By comparison, the head of the American Society of Travel Agents (ASTA) predicted in 2002 that if the travel ban were lifted, 1 million U.S. travelers would visit Cuba the first year—a number that would cause a 58 percent increase over current visitation levels—and, furthermore, the number of U.S. arrivals would increase to 5 million within five years.[40] In June 2002, a report issued by the Center of Sustainable Tourism at the University of Colorado estimated 950,000 American tourist arrivals in year one and 2.7 million arrivals in year five.[41] Most recently, a new report based on travel patterns of closely comparable groups (Canadians and U.S. residents) estimates that 2.8 million U.S.-based tourists would visit Cuba annually.[42] Without any doubt, if restrictions on U.S. travel were eliminated, Cuba would experience a second boom even greater than the one experienced in the 1990s.

Whatever the future scenario of travel restrictions may be, Cuba is already becoming part of the Caribbean tourist circuit for travelers from nations other than the United States, and the Cuban government is directing its hotel and tourist investment program at activities that will interest international hotel chains, as well as the prospective U.S. market. Although the executives whom we interviewed see no early end to the embargo, recent hotel projects are being built to meet South Florida Building Code Standards, thereby ensuring that these projects will be attractive to major North American hotel brands should they ever be able to do business in Cuba.[43]

A particular danger to tourism development in Cuba comes from stringent application of the Helms-Burton legislation. As we mentioned above, this law threatens lawsuits against foreign companies and exclusion of their executives from U.S. soil for the use of any property in Cuba ever confiscated from anyone who is now a U.S. citizen. Recently, SuperClubs pulled out of one hotel contract in Cuba after the U.S. State Department threatened to cancel top executives' U.S. visas on the grounds that the company is "trafficking" in property confiscated from Cuban Americans. Though neither European nor Canadian hotel corporations were threatened by the Helms-Burton legislation, the move could serve to dissuade investors who are thinking about delving into Cuba's burgeoning tourism industry. Helms-Burton does not threaten tourism projects that are being developed in unexploited areas, which involve no property claims from Cuban Americans or U.S. corporations.

Concluding Remarks

Until recent years, Cuba has been the main destination for Caribbean tourism. The changes that have taken place in the island over the past fifteen years corroborate the fact that Cuba will continue to be a major force in the Caribbean tourism industry. Cuba made a spectacular start in the 1990s, increasing annual tourist visits fivefold and becoming the world's fastest-growing tourist market—as it moved from 3 percent of Caribbean tourism in 1990 to 10 percent in 2000.

The dynamism of the Cuban tourist sector has attracted most of the FDI in the country, acting as the engine for the Cuban economy. The rapid growth of the tourist industry has resulted in exactly what the

Cuban government has sought—an influx of foreign exchange and direct investment. The government funnels much of this money back into the major tourist conglomerates and related infrastructure. With this new infrastructure in place—hotels, resorts, marinas, and eleven international airports now served by ninety foreign airlines—Cuba is ready to receive greater numbers of visitors, and we believe Cuba has the potential to obtain a larger share of Caribbean tourism. Cuba's distinctive attractions give it a strong reason to draw more tourists. In contrast to regional competitors that offer primarily beach resorts, Cuba has colonial architecture; natural riches; cultural attractions; and Havana, the Caribbean's largest city, a place that intrigues many visitors in spite of its physical decay.

Weighing against those favorable prospects, the economics of Cuban tourism and hotel business involve two major growth restrictions, namely, political risk and management-efficiency problems. As we explained above, Cuba's socialist government distorts market forces, notably with its human resources policies, and Cuba remains the only Caribbean destination that is cut off from its natural market, the United States. With regard to market-related issues, foreign investors have been the strongest element in terms of introducing market-oriented behavior, and foreign hotel chains have played an important tutorial role in developing local markets. Therefore, we should expect a trend toward a more flexible market socialist model. As far as the U.S. embargo, perhaps the greatest unknown is the future of travel restrictions for U.S. tourists to Cuba. The impact of a free Cuban tourism market will be substantial, with great potential—especially over the short term—to draw market share away from other Caribbean destinations. So far, early market entry providing good locations and the possibility of negotiating favorable investment arrangements are seen as an advantage by many non-U.S. hotel chains prior to the possible lifting of the U.S. embargo.

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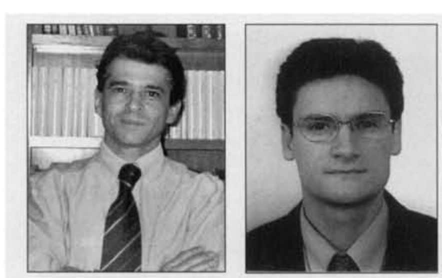

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